RATING REPORT

Oil Industries Pakistan Limited (OIPL)

REPORT DATE:
August 31, 2023

RATING ANALYSTS:
Saeb Muhammad Jafri
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Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Action	Initial	
Rating Date	*August 31, 2023*	

COMPANY INFORMATION

Incorporated in 1976

Public Limited Company (Unlisted)

Key Shareholders (with stake 5% or more):
- Mrs. Adeeba Basit – 20.01%
- Mr. Muhammad Yousuf – 20.00%
- Mr. Muhammad Asif Sheikh – 19.05%
- Mrs. Shabana Rashid – 15.00%
- Mr. Muhammad Waleed Asif – 12.00%
- Mr. Muhammad Shaiq Basit Shaikh – 5.00%
- Mr. Danish Basit – 5.00%

External Auditors: BDO Ebrahim & Co, Chartered Accountants

Chairman & Chief Executive Officer: Mr. Muhammad Asif Sheikh

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates (May 2023)
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

OVERVIEW OF THE INSTITUTION

Oil Industries Pakistan Limited (OIP) started its business operations in 1976 under the brand name "Target". The Company's head office and factory are located in Karachi.

Profile of Chairman & CEO

Mr. Muhammad Asif Sheikh has more than 3 decades of entrepreneurial expertise, being one of the core partners since the inception of OIP. Apart from finance sector, his core areas of interests include human resources, marketing and research & development. During his tenure at OIP, he was instrumental in launching Transformer Oil in Pakistani Market, establishment of distribution networks across the country, successful acquisition of OMC license from Oil & Gas Regulatory Authority (OGRA) to

RATING RATIONALE

Oil Marketing Companies Sector Review

In FY23, the oil marketing companies (OMCs) sector experienced a significant downturn, with OMC sales plunging 26% year-on-year. This slump primarily stems from a decelerating economy, notably marked by lower automobile sales and suppressed agricultural activity due to torrential floods earlier in the year. Further compounding these challenges were the increased availability of smuggled high-speed diesel (HSD) and a decrease in furnace oil (FO) production due to lower power sector demand as a result of higher prices. Moreover, a perceptible trend towards reduced petrol consumption in response to rising prices further contributed to volume decline. By the close of FY23, POL product sales stood at 16.6 million tons compared to 22.6 million tonnes in FY22.

In Pakistan, ~84.2% of sales in the OMC segment are represented by five major entities: Pakistan State Oil (45.7%), Total Parco Pakistan Limited (13.1%), Shell Pakistan Limited (10.2%), Attock Petroleum Limited (8.5%) and Gas & Oil Pakistan Limited (6.7%). The remainder, 15.8%, of the industry's sales is constituted by smaller players in the sector.

Going forward, industry volumes remain sensitive to the development in the economic environment in the country. Any improvement in the sector is contingent upon revival of automobile sales and agricultural activity in Pakistan as well as increase in furnace oil (FO) based power production.

Company Profile

Oil Industries Pakistan Limited ('OIP' or 'the Company') was incorporated under The Companies Ordinance, 1984 and duly registered with Securities and Exchange Commission of Pakistan (S.E.C.P.). The Company started its business in 1976 under the brand name "TARGET". In October 2021, the Company was converted into a Public Limited (Unlisted) entity.

The Company is principally involved in manufacture, blend and sale of lubricating oil and procurement and distribution of petroleum products. OIP's business units, including plant and storage, are as follows:

- Registered Officer situated in 228/A, Block 2, PECHS, Karachi.
- Manufacturing facility for lubricants situated in 226 NA Class, Korangi Industrial Area, Karachi.
- Storage facility of petroleum products situated in District Sahiwal (Punjab) with a capacity of 5,000 MTs.
- Another storage facility for petroleum products is planned in Daulatpur (Sindh). The facility will have a storage capacity of 5,000 MTs, which can eventually be enhanced to 8,000MTs.
- The Company has branch offices in Lahore and Multan.

Business Segments

Lubricant Segment: The Lubricant Segment has been OIP's staple business since inception. Products include a wide range of industrial and retail machine oils being sold under the brand name of 'TARGET'. Majority of the sales under this segment pertain to engine oil for motor vehicles and bikes sold through a retail distribution network. The Company is one of very few companies involved in sale of transformer oil used in power plants. As per management, OIP has establish OMC for distribution of petroleum products under the Brand Name "TARGET".

a market share of ~80% in this segment. OIP is also involved in sale of machine oil for industrial consumers.

The segment's capacity utilization, calculated on triple shift basis, comes at 52% as illustrated below. As per management, on a single shift basis capacity utilization is much higher.

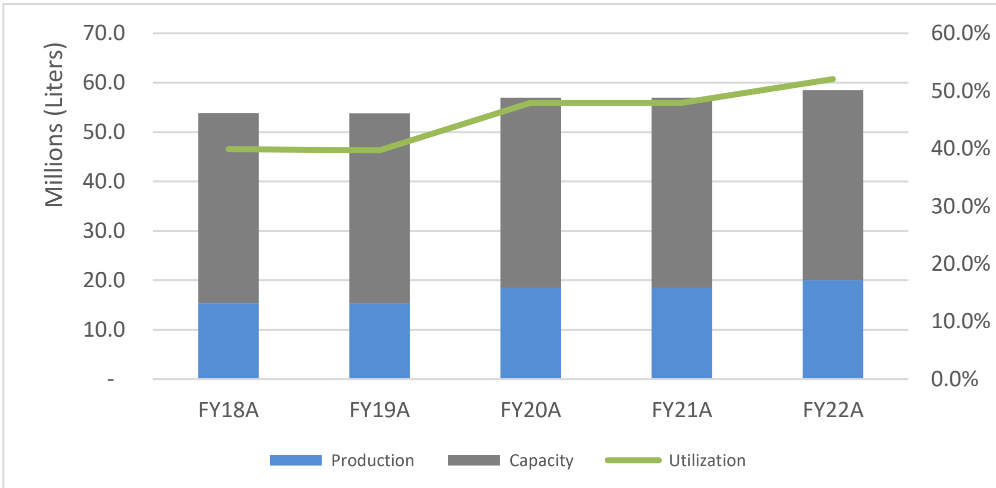

Figure 1 Capacity Utilization

OMC Segment: The Company recorded first revenues from this segment in FY20. Products in this segment include Premium Motor Gasoline (PMG) and High-Speed Diesel (HSD), with revenue distribution between the 2 products being in almost equal proportions.

These petroleum products are sold through 37 retail petrol stations situated in Punjab and fed through OIP's storage facility located in Sahiwal. Presently, the Company has license to open petrol stations in Punjab, and their current storage capacity entails a capacity of 80 petrol stations. Accordingly, the Company will continue working on growing this network with 50 sites targeted by end FY24.

Additionally, OIP's storage facility in Daulatpur (Sindh) is under construction, which will feature a capacity of 5,000MTs; given additional space available, the management plans to eventually expand capacity to 8,000 MTs. Once construction is completed, management will move forward with license acquisition from OGRA, for opening petrol stations in Sindh. However, given the current macro-economic environment, management is planning the funding requirements accordingly. A planned IPO has been in the pipeline, however, timing of the same remains uncertain.

Key Rating Drivers

Ratings incorporate OIP's Market Positioning & Operational Track Record

The ratings incorporate OIP's 4 decade long operational track record in the lubricant manufacturing segment. Over the years, the Company has established prominent market positioning, particularly in the transformer oil and retail engine oil segments. Furthermore, OIP's sponsor family is closely engaged in business strategy formulation and has historically retained all profits posted by the Company.

Ratings incorporate business risk profile of the OMC segment.

Business risk profile of the OMC segment is characterized by high cyclicality, high barriers to entry on account of high capital intensity, medium to low risk of substitution, low technology risk, albeit high regulatory and energy sensitivity risk. VIS classifies OMC sector's overall industry risk as high to medium.

Ratings incorporate OIP's segment diversification.

Having strong diversification in the lubricant segment, OIP's business risk profile compares favorably to other OMC entities. While growing OMC business segment may tilt the risk profile towards OMC segment, the lube business will continue to provide margin during the rating horizon. With OMC segment growing, overall risk profile may tilt towards OMC segment, nevertheless lube business diversification will continue to support business risk profile of the Company.

Rating incorporates strong cash flow coverage indicators & low financial risk profile albeit is constrained by size of equity.

OIP's financial risk profile is characterized by a conservative capital structure. Historically, expansion has largely been funded through internal resources with debt utilization broadly being limited to running finance lines. The cash flow coverage of debt and DSCR has remained comfortable during the period reviewed (FY18-3QFY23). With much of the future expansion planned to be funded through IPO, management projects gearing to remain conservative during the rating horizon. Nevertheless, adverse macroeconomic metrics could delay IPO, in which case debt utilization may need to be increased. As per management, the envisaged cash flows are mostly discretionary and can be scaled back in case of a delayed IPO.

Rating is constrained by the quantum of equity base, which stood at Rs. 1.5 bln as of 3QFY23; at this level, the Company's gearing is sensitive to increase in debt and susceptible to changes in equity.

Maintenance of current DSCR levels and a gearing level below 1.5x throughout the rating horizon will be of critical for ratings, as the Company's modest equity size limits its capacity to absorb substantial increases in short-term borrowings in lieu of its planned expansion.

Rating considers OIP's gross margin deterioration due to OMC operations.

Since FY21, OIP has witnessed a deterioration in gross margin, largely attributed to the company's expanding engagement in the OMC segment, which began operations in FY20. As a low-margin business compared to OIP's traditional lubricants operations, increasing revenue contribution from this segment precipitated a continuous contraction in the company's overall margins.

Moreover, with the Oil & Gas Regulatory Authority (OGRA) exercising regulatory control over margins, the company's capacity to manage its own margins is considerably limited. Despite these challenges, the management expects an improvement in the segment's margins, bolstered by approved increase in margin from Rs. 3 to Rs. 6 per liter.

Going forward ratings will remain sensitive to maintenance or improvement of net margins over the rating horizon. Any deterioration may affect overall risk profile of the Company.

Ratings take into account OIP’s operational status as an unlisted entity.

OIP’s assigned rating incorporates its operational status as an unlisted entity. The eventual listing of the Company will be viewed positively from a ratings purview.

FINANCIAL SUMMARY					*Rs. Million*
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**FY22**	**3QFY23**
Property, plant and equipment	930.4	916.2	956.9	1,447.6	1,505.7
Stock-in-Trade	109.3	323.7	653.3	714.0	962.1
Trade Debts	116.2	141.2	329.3	497.3	595.7
Short term Investment	0.0	0.0	0.0	0.0	0.0
Cash & Bank Balances	4.8	5.3	25.1	25.4	11.4
Total Assets	1,259.9	1,550.7	2,315.1	3,001.6	3,291.0
Trade and Other Payables	101.1	118.2	443.6	306.3	411.4
Long-term Debt (incl. current portion)	28.7	84.1	91.9	65.8	53.0
Short-term Debt	139.5	247.9	475.5	668.1	619.6
Total Debt	168.2	332.0	567.4	733.9	672.7
Paid up Capital	174.4	305.1	527.6	527.6	527.6
Equity	689.2	809.6	1,028.1	1,259.5	1,500.1
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**FY22**	**3QFY23**
Net Sales	1,654.1	2,057.4	4,679.9	8,686.6	6,615.7
Gross Profit	221.9	281.1	534.1	743.6	648.2
Administrative Expenses	39.7	46.1	76.4	84.6	78.8
Distribution Costs	66.6	69.6	101.0	131.6	144.9
Profit Before Tax	92.9	125.5	303.0	317.1	309.2
Profit After Tax	78.4	123.3	213.0	222.7	240.6
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**FY22**	**3QFY23**
Gross Margin (%)	13.4%	13.7%	11.4%	8.6%	9.8%
Net Margin (%)	4.7%	6.0%	4.6%	2.6%	3.6%
FFO to Total Debt* (%)	125.8%	48.4%	54.5%	42.5%	47.7%
FFO to Long Term Debt* (%)	737.3%	191.2%	336.3%	474.6%	605.3%
Gearing (x)	0.2	0.4	0.6	0.6	0.4
Leverage (x)	0.5	0.6	1.0	0.9	0.8
Debt Servicing Coverage Ratio* (x)	10.0	4.7	5.0	3.2	3.2
Current Ratio	1.3	1.3	1.3	1.4	1.6
(Stock in trade + trade debts) / Short Term borrowings (x)	1.6	1.9	2.1	1.8	2.5
Return on Average Assets* (%)	7.3%	10.9%	11.0%	8.4%	10.2%
Return on Average Equity* (%)	11.2%	16.7%	18.7%	14.3%	16.2%

**Annualized*

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Oil Industries Pakistan
Sector	Oil & Gas
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meetings Conducted	

Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
31-Aug-23	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted:

Name	Designation	Date
Mr. Nadeem Khan	Chief Financial Officer	August 4, 2023
Mr. Danish Basit Shaikh	Director	